



From Recession to Recovery

Monday, April 26, 2010

8:00 AM - 9:15 AM

Moderator

Michael Klowden, President and CEO, Milken Institute

Speakers

Mohamed El-Erian, CEO and Co-Chief Investment Officer, Pacific Investment Management Co. (PIMCO)

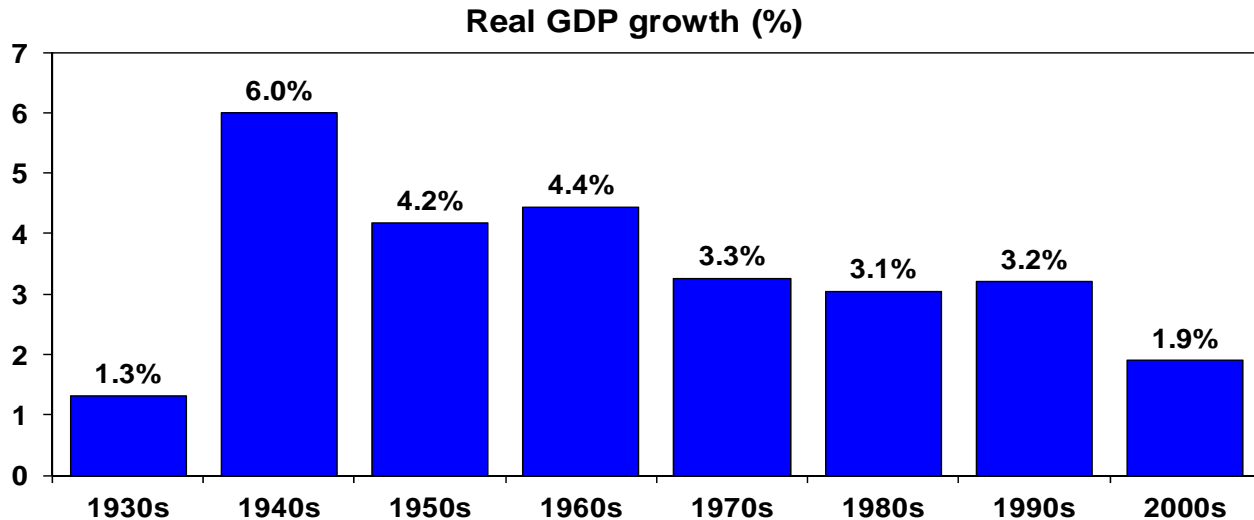
Steve Forbes, Chairman and CEO, Forbes Media; Editor-in-Chief, Forbes

Kenneth Griffin, Founder, President and CEO, Citadel Investment Group LLC

Marc Lasry, Chairman and CEO, Avenue Capital Group

A lost decade

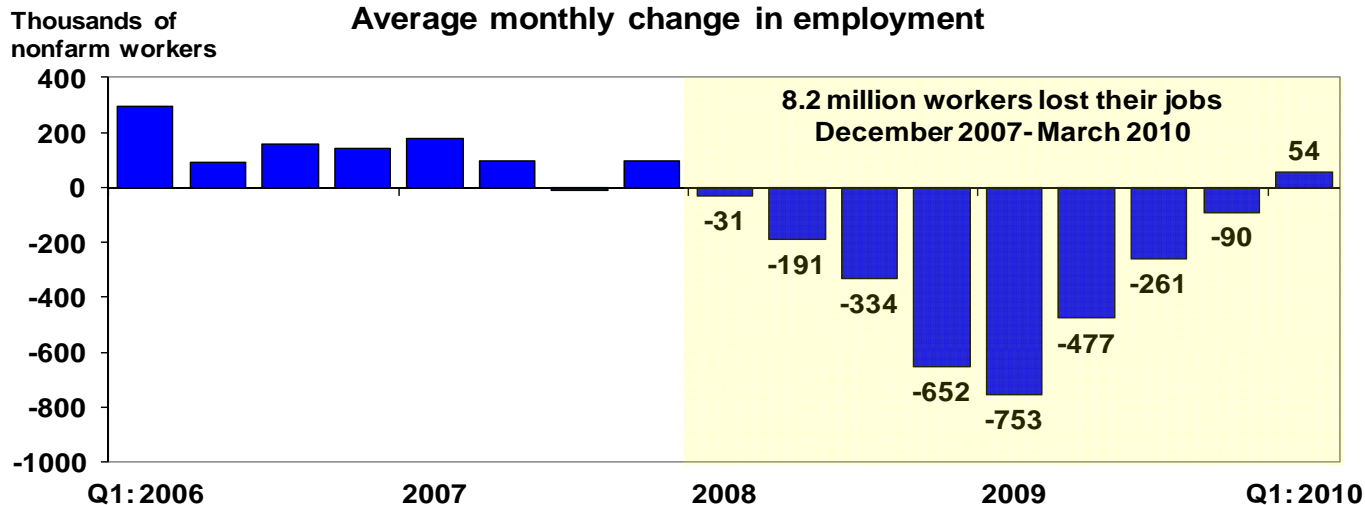
The U.S. economy had its worst decade since the 1930s



Source: The U.S. Bureau of Economic Analysis.

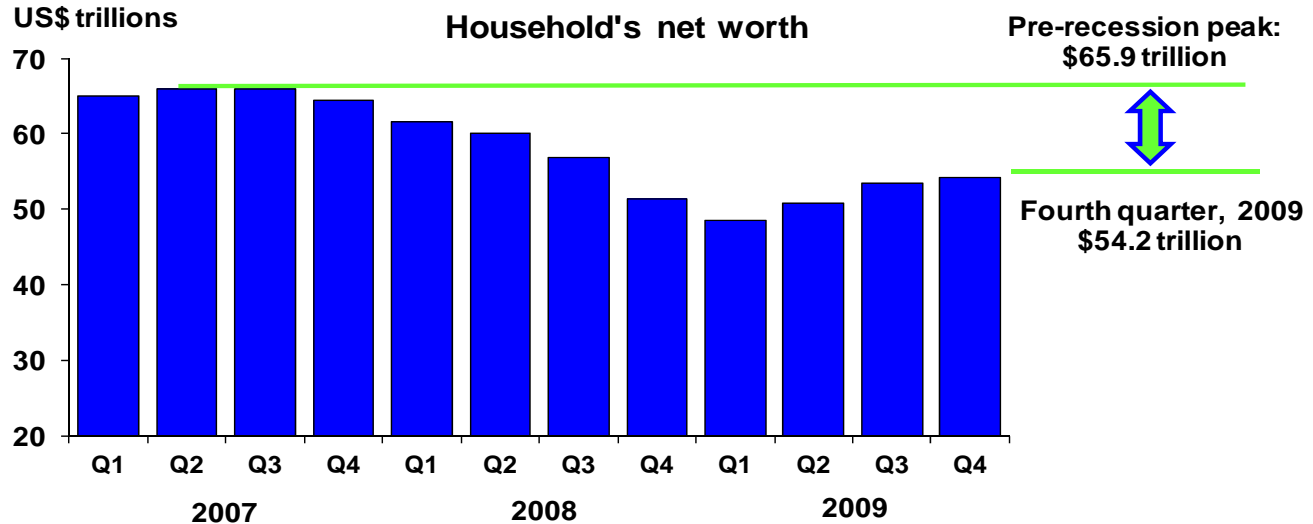


8.2 million total job losses



Source: U.S. Bureau of Labor Statistics.

Americans' net worth is down by 12 trillion from its 2007 peak

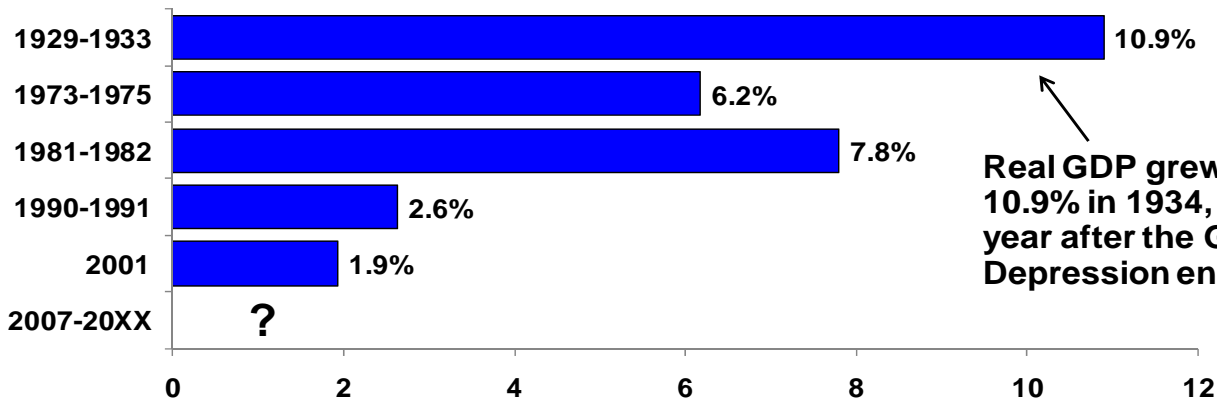


Source: Federal Reserve.

Deep recession, strong recovery?

Average real GDP growth rates (%) in the four quarters following each recession

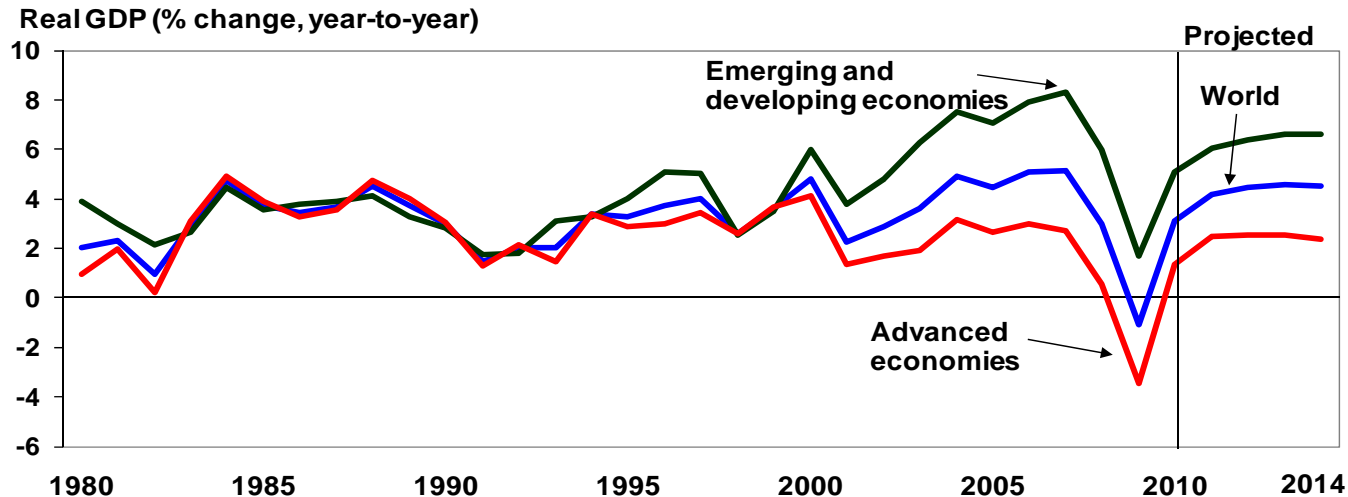
Periods of Recession



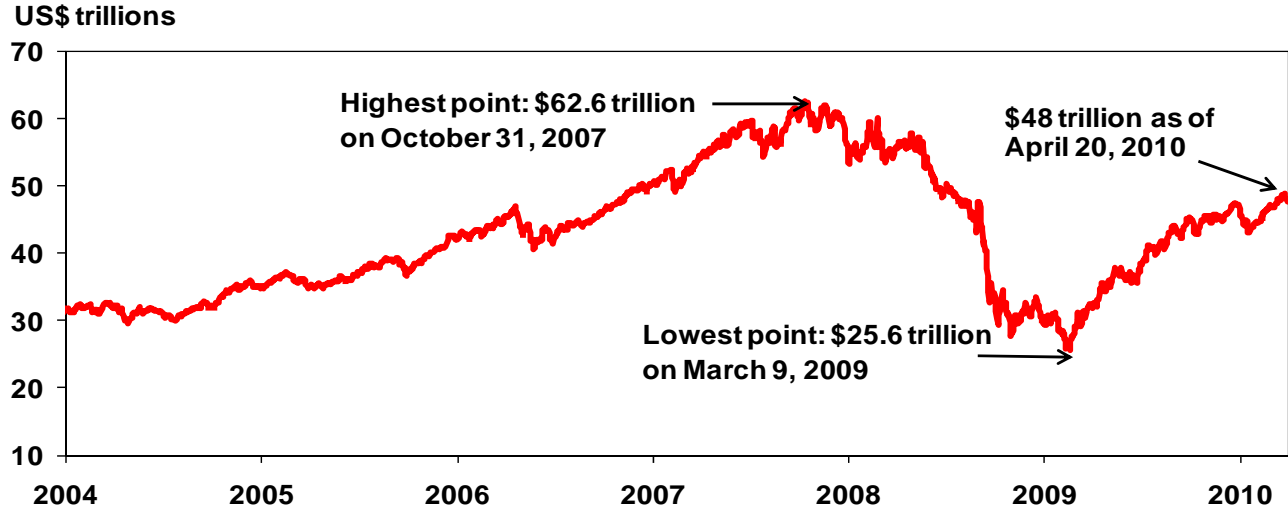
Real GDP grew 10.9% in 1934, the year after the Great Depression ended.

Sources: U.S. Bureau of Economic Analysis; the Milken Institute.

Large reductions in the world real GDP growth

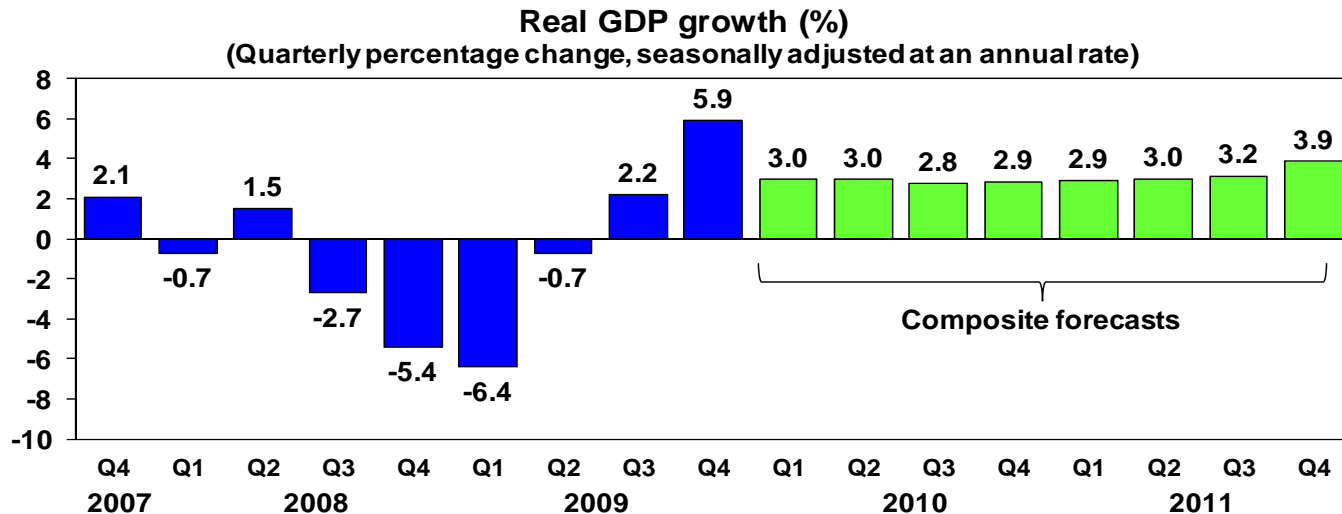


World stock market capitalization still 23% below its peak level (as of April 20, 2010)



Source: Bloomberg.

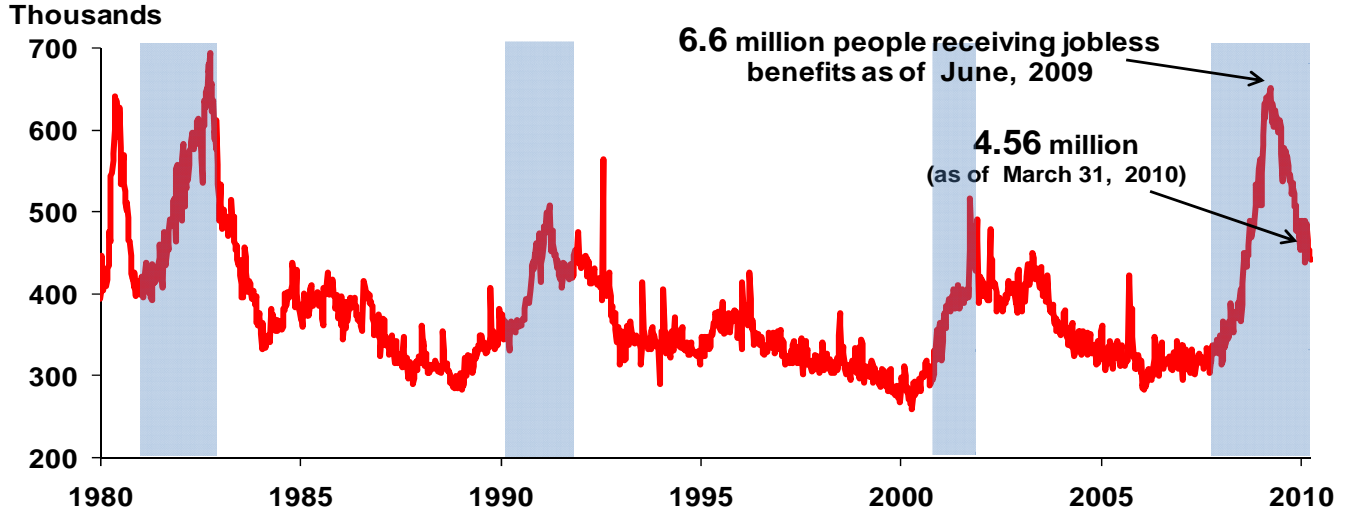
Forecasts of positive real GDP growth rates



Note: Composite forecasts are average forecasts of 27 private organizations.

Sources: U.S. Bureau of Economic Analysis; Bloomberg.

Decline in initial claims for unemployment insurance



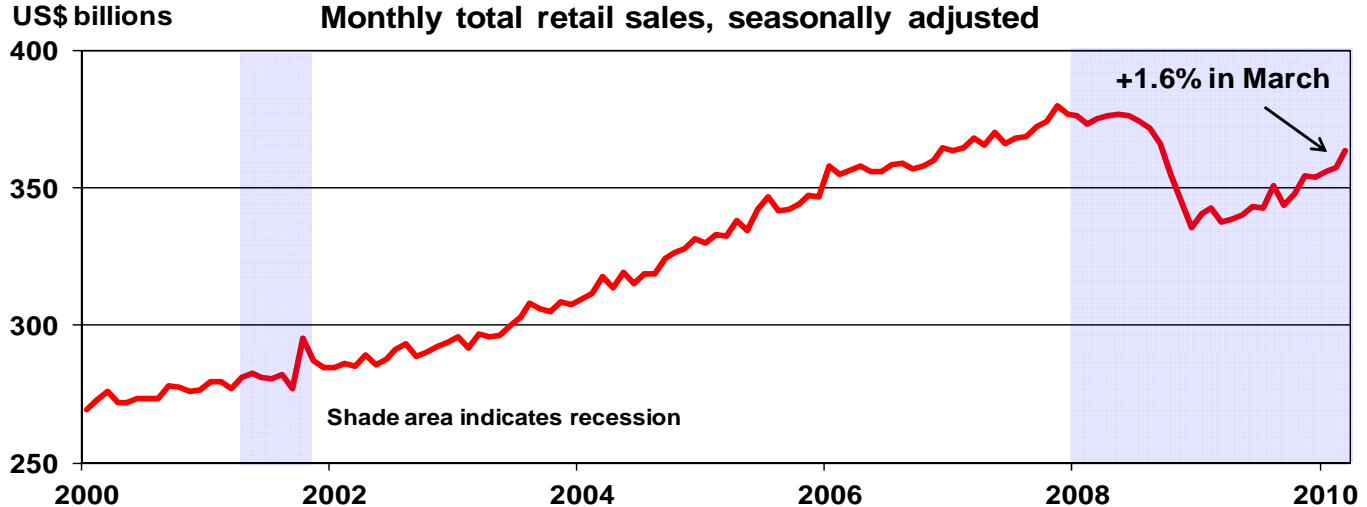
Source: U.S. Bureau of Labor Statistics.

Retail sales climbed in March

A sign showing American consumers were beginning to spend more



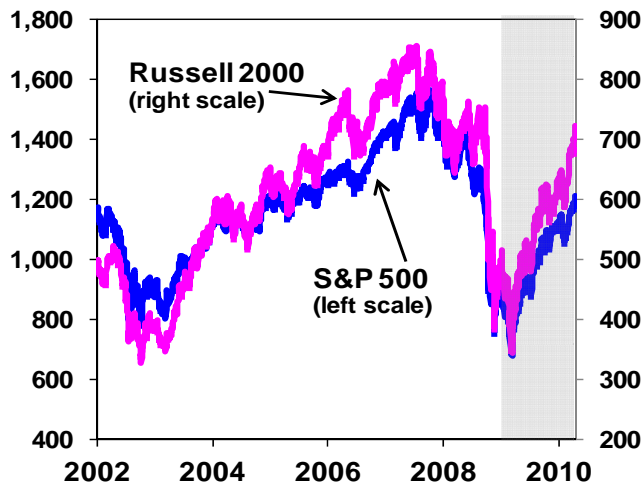
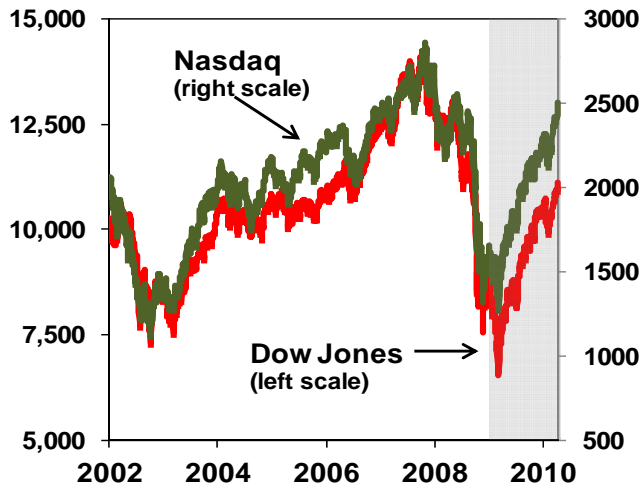
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Source: U.S. Department of Commerce.



Turnaround stock markets



Source: DataStream.

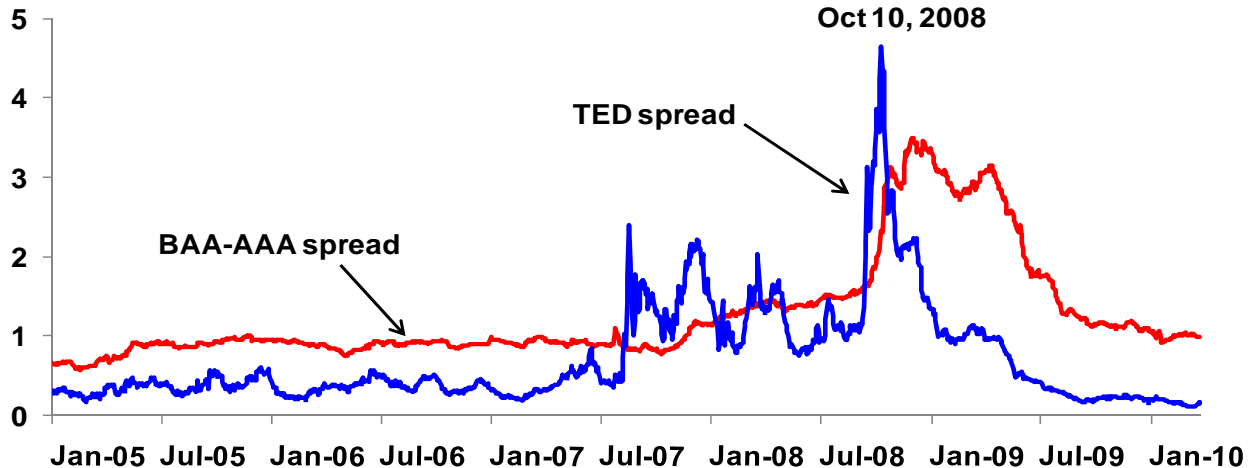
Narrowing risk spread



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Indicative of the reduced stress in the debt markets

Percentage points

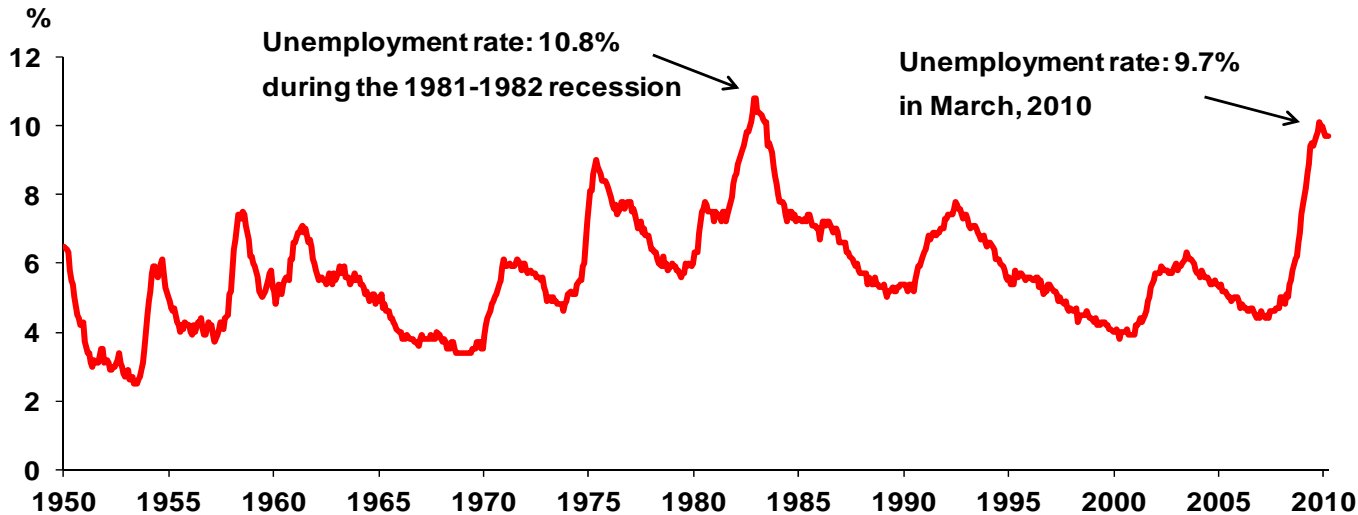


Note: The TED spread is the difference between 3-month LIBOR rates and the yield on 3-month U.S. Treasury bills.

The BAA-AAA spread is the difference between the interest rates on high-grade and medium-grade corporate bonds.

Sources: Bloomberg, Federal Reserve.

Unemployment rate near the highest level since Great Depression



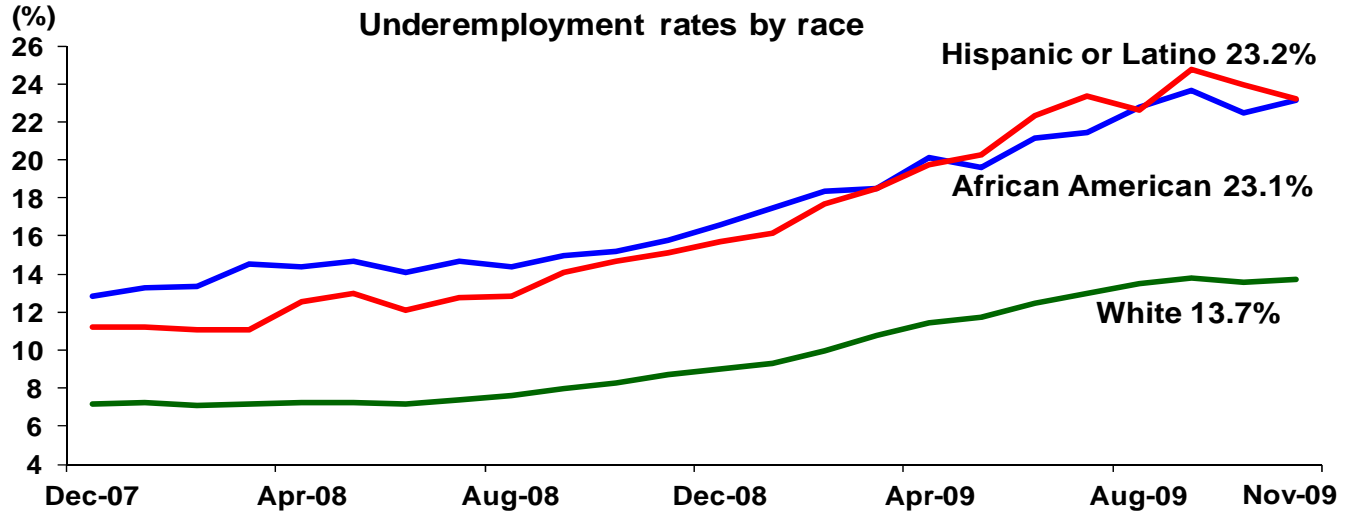
Source: U.S. Bureau of Labor Statistics.

Involuntary part-time or underemployed hits the highest level in 50 years



Source: U.S. Bureau of Labor Statistics.

One in four black, Hispanic workers is underemployed

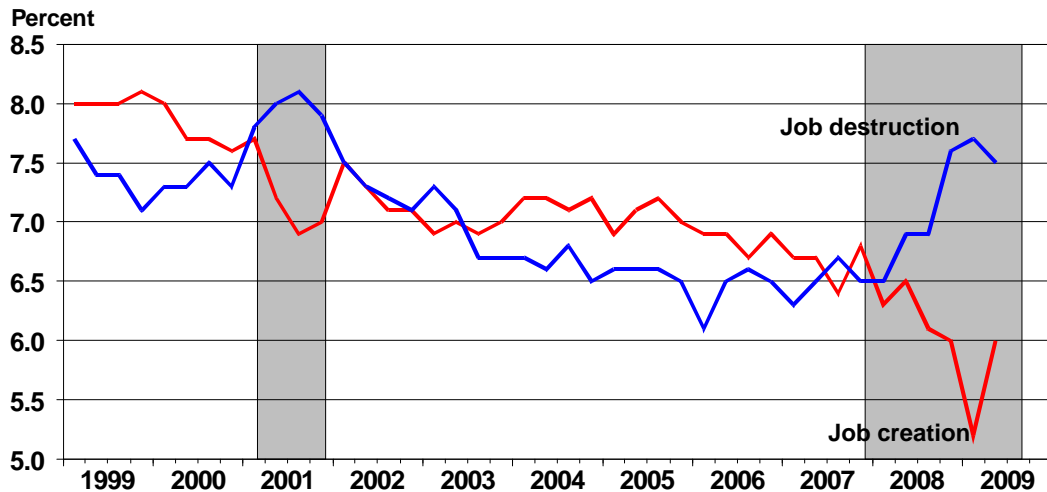


Note: the shown underemployment data are from November, 2009. Underemployed includes the unemployed, involuntary part-time, and discouraged workers.

Source: The Economic Policy Institute.

Job creation still a problem

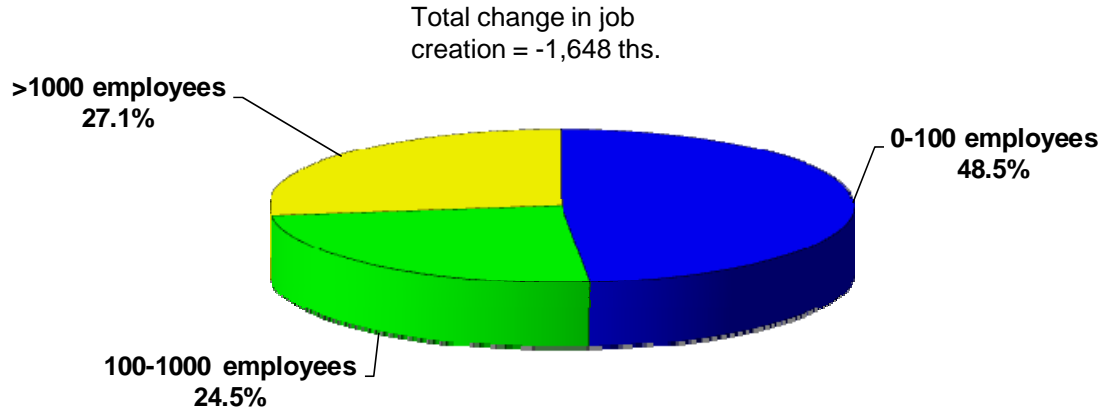
Rate of job creation and destruction



Sources: Bureau of Labor Statistics, Moody's Economy.com

Small businesses account for nearly half the decline in job creation

Change between 2007 and Q1 2009

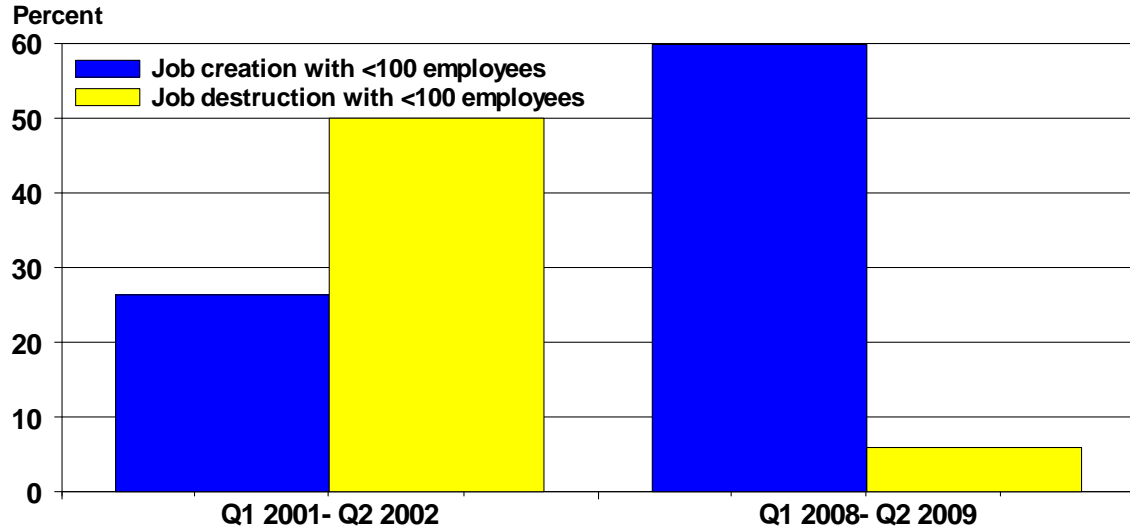


Sources: Bureau of Labor Statistics, Moody's Economy.com

60 percent of current decline in job creation stems from small businesses versus 26 percent in previous recession



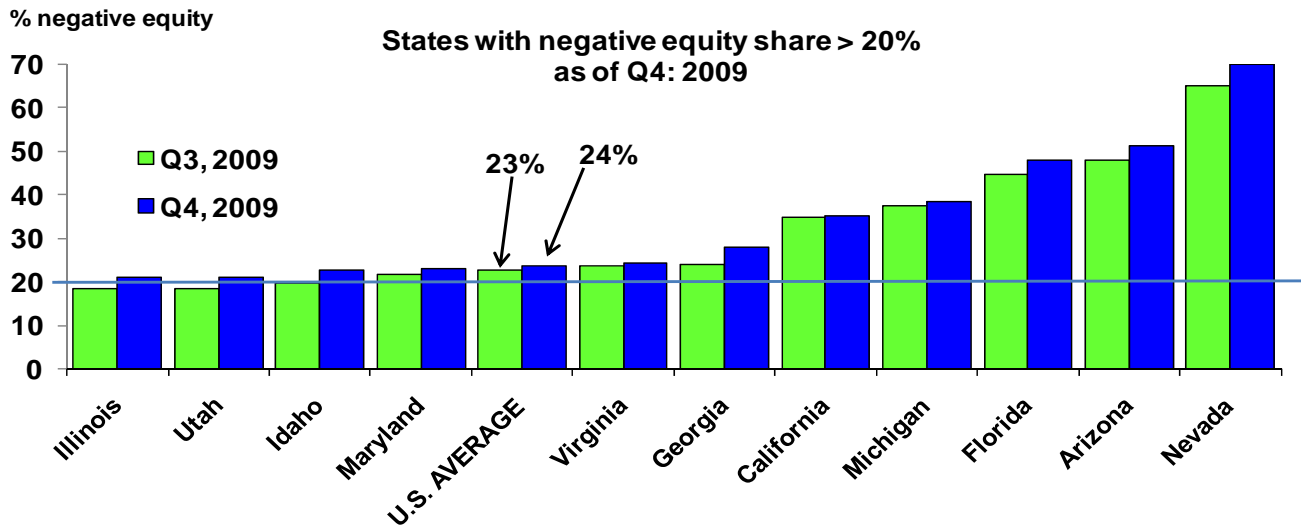
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Sources: Bureau of Labor Statistics, Moody's Economy.com



Nearly 1 in 4 homeowners underwater



Note: The data only include properties with a mortgage.

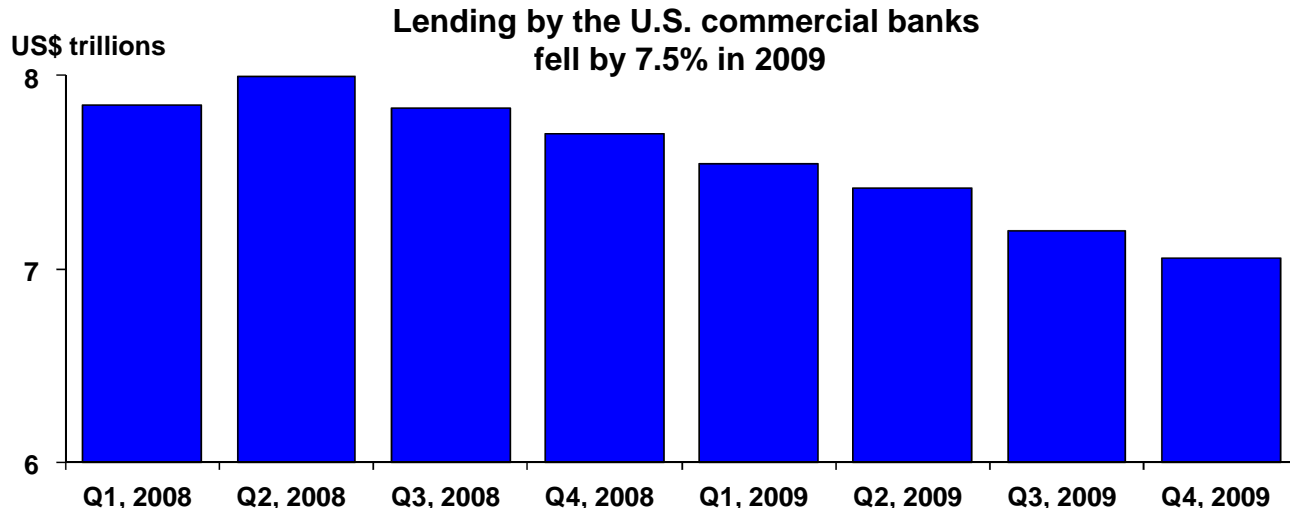
Source: First American CoreLogic.

Banks are still pulling back on lending



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No bank lending, no recovery

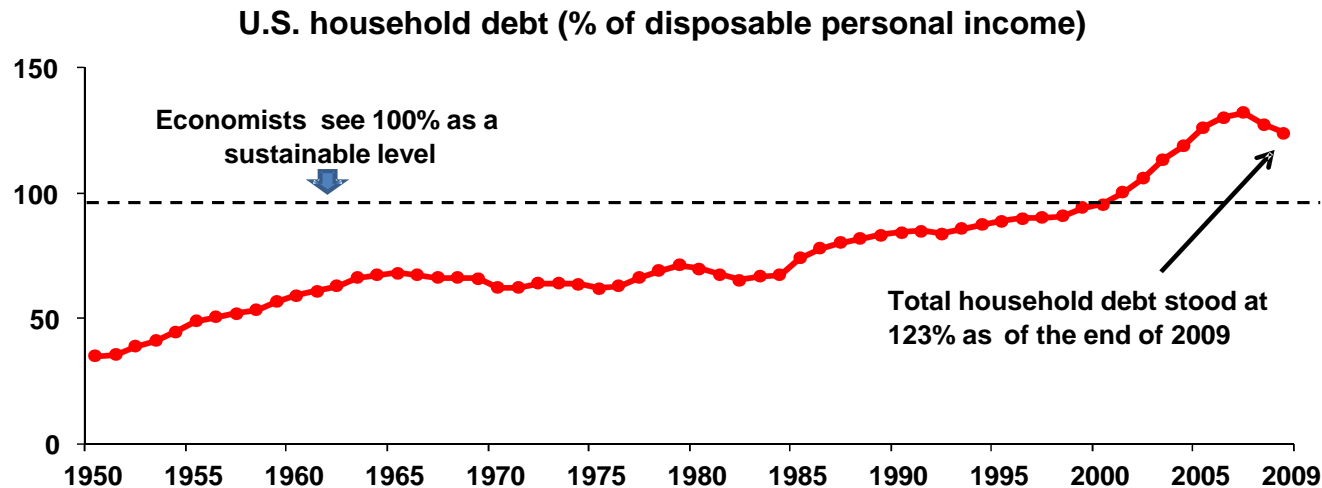


Note: The data are loan balances (net loans and leases) of all U.S. commercial banks.

Source: Quarterly Banking Profile, Federal Deposit Insurance Corporation.

Households are deleveraging

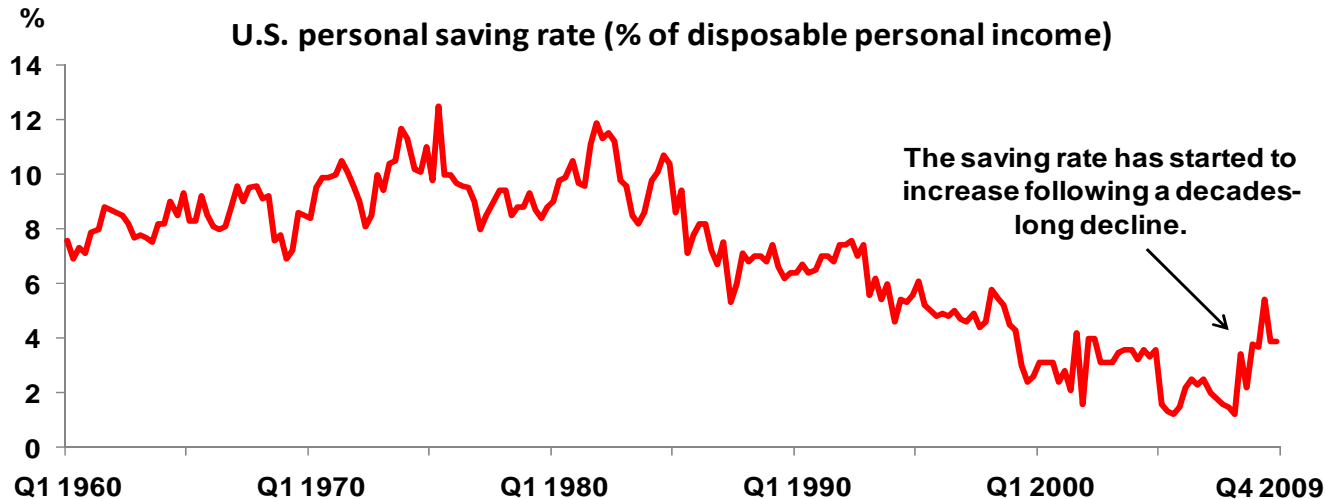
U.S. households need to reduce their debt to more manageable level



Source: Federal Reserve.



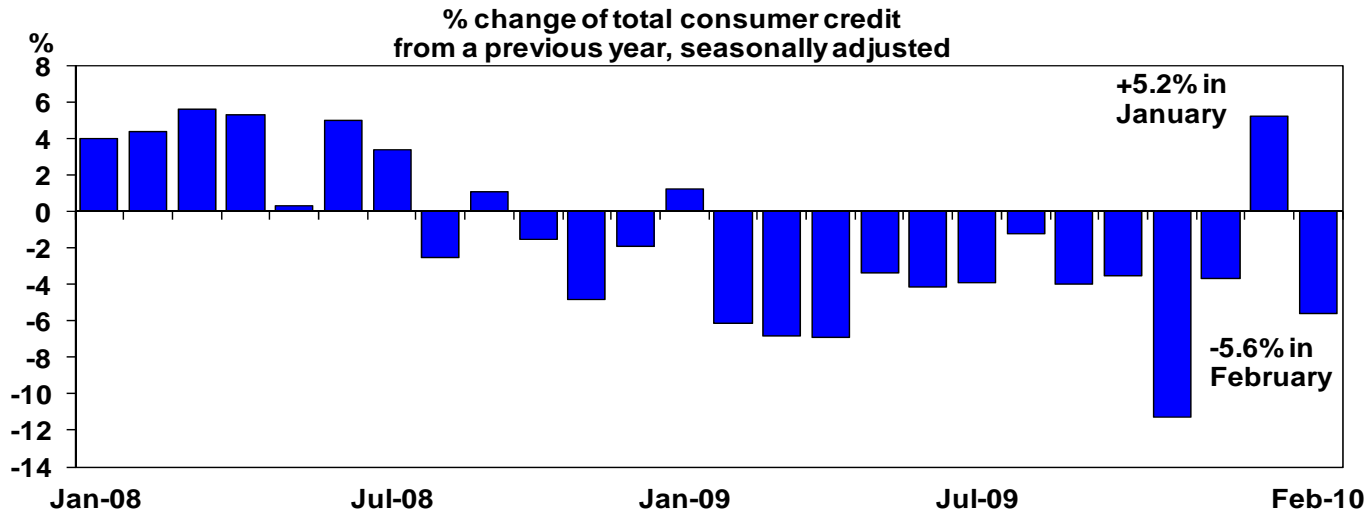
Upward trend of U.S. saving rate



Source: U.S. Bureau of Economic Analysis.



Consumer borrowing still declined



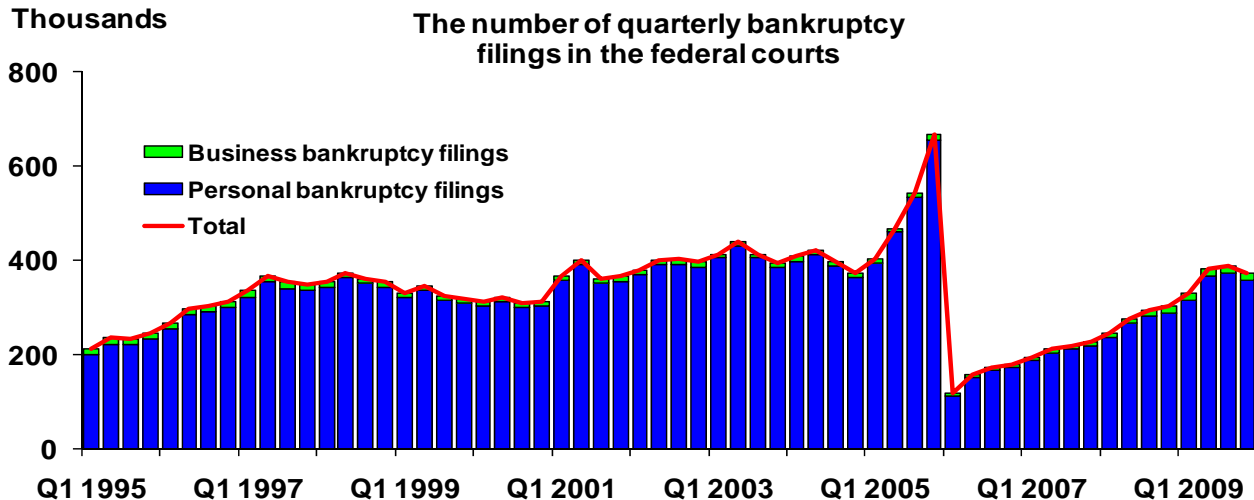
Source: Federal Reserve.

Growing personal bankruptcy filings



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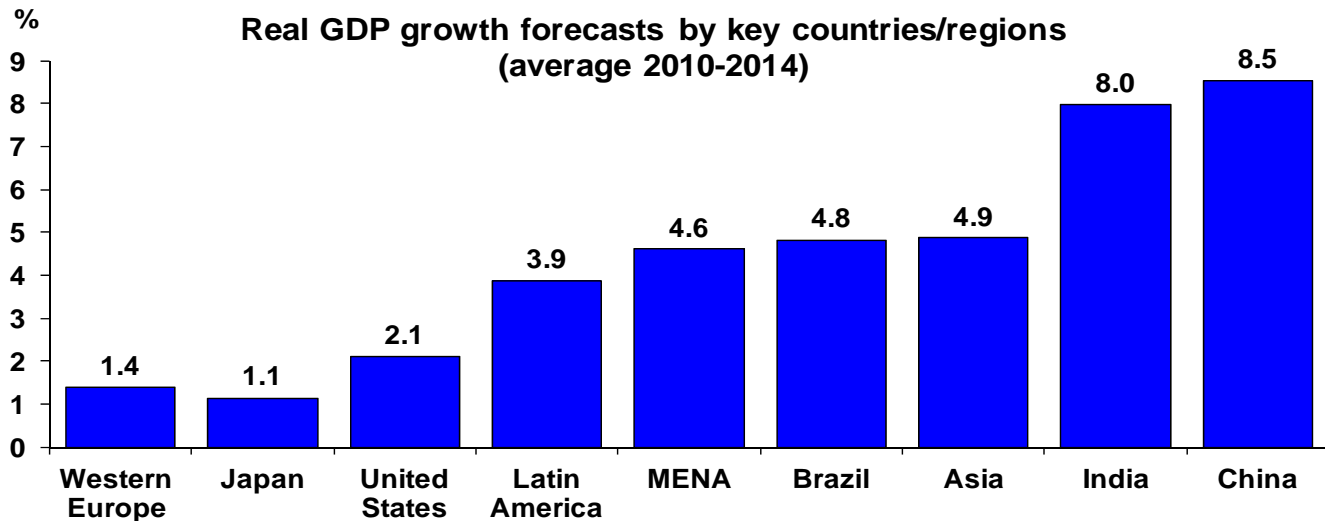
The total number of bankruptcy filings = 1.47 million in 2009



Source: Administrative Office of the U.S. Courts.

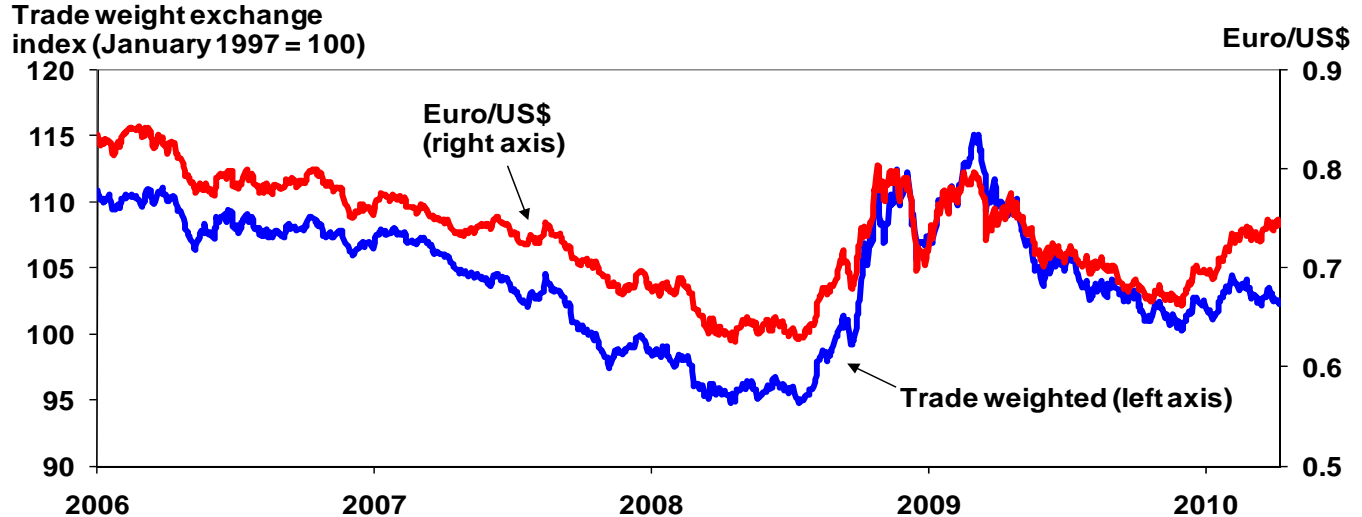
Global economic forecasts

Emerging market economies will lead the world growth



Source: Economist Intelligence Unit.

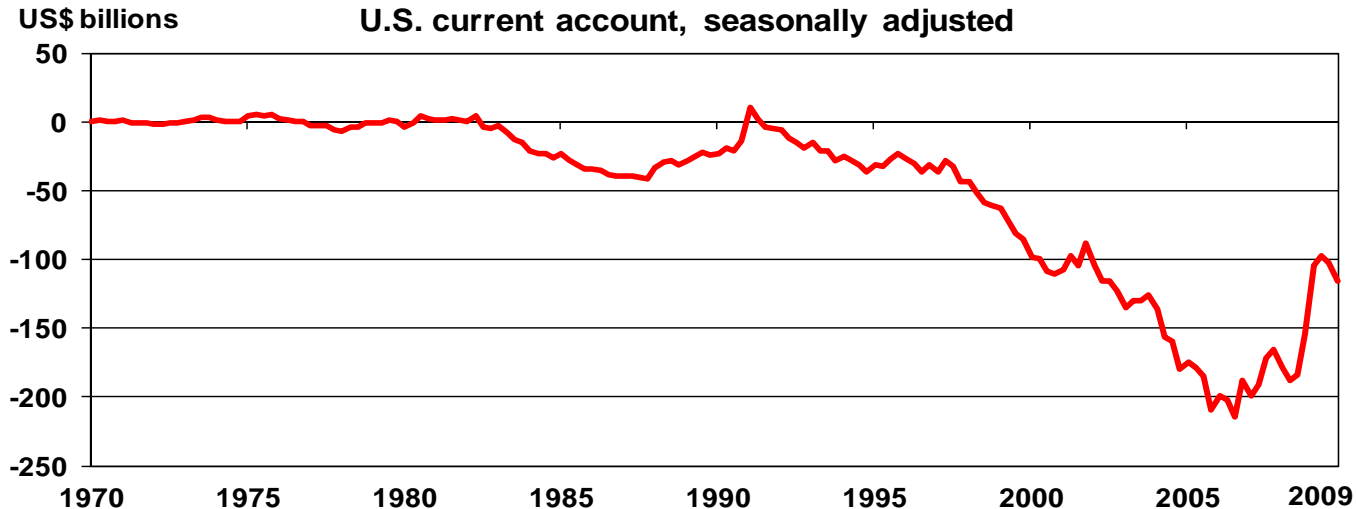
The U.S. dollar



Source: Federal Reserve.

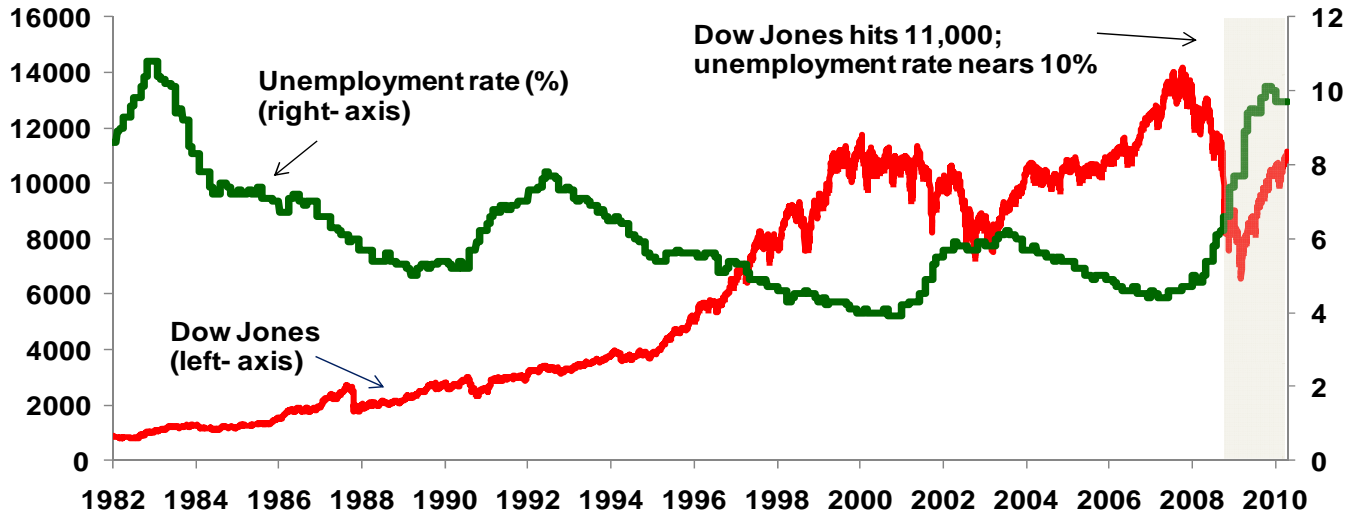


U.S. current account deficit



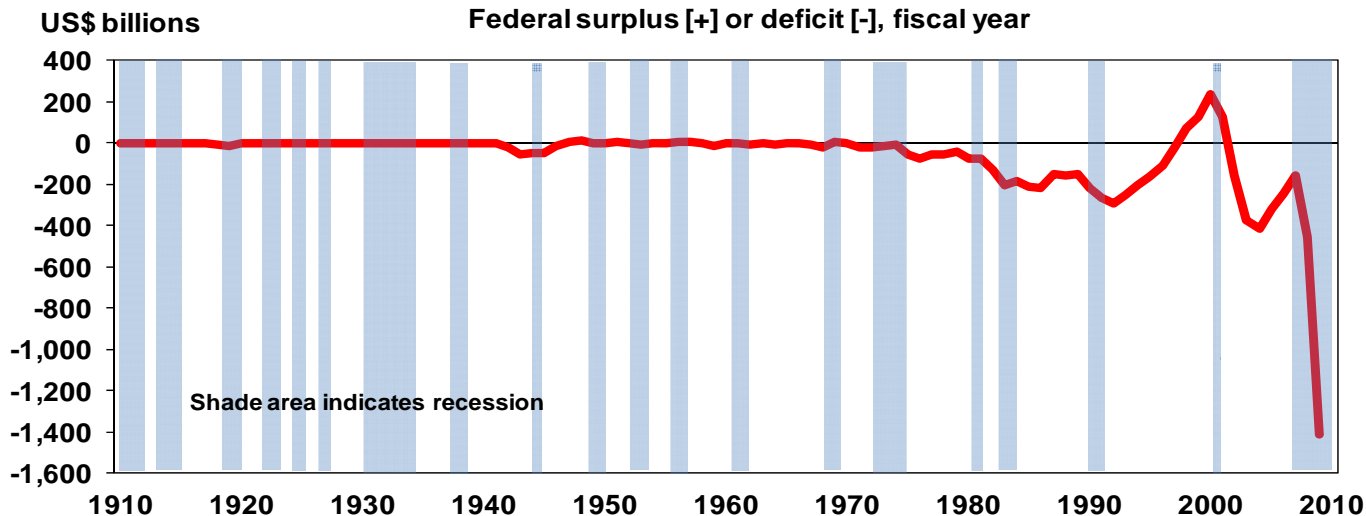
Source: The U.S. Bureau of Economic Analysis.

Parallel relationship between stock market performance and the unemployment rate



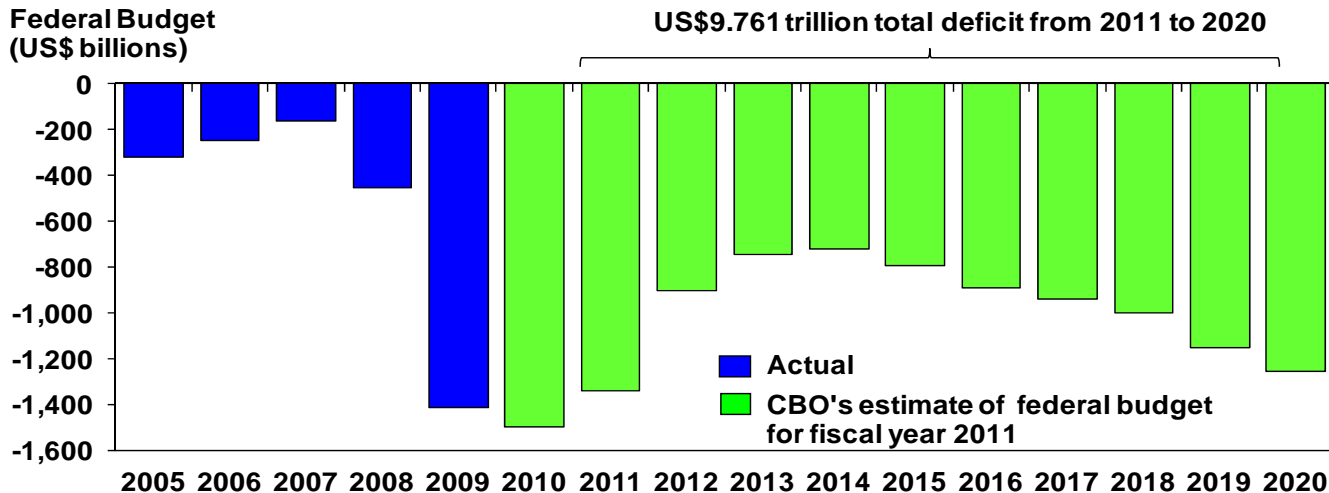
Sources: U.S. Bureau of Labor Statistics; DataStream.

U.S. fiscal position is in a free fall



Source: The Office of Management and Budget, White House.

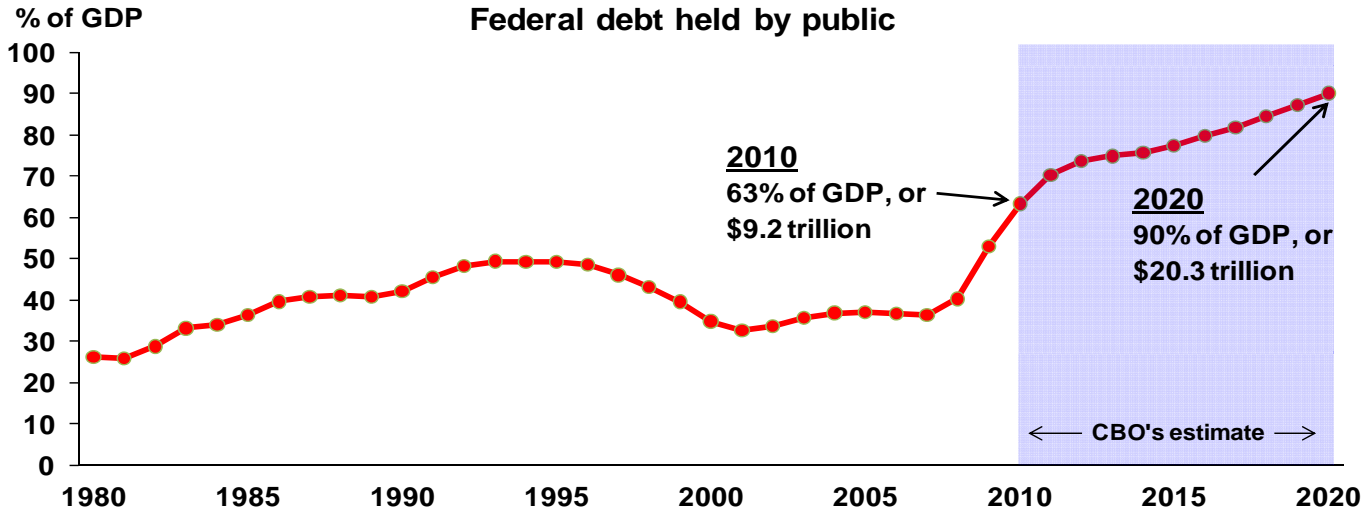
President Obama's budget will generate nearly \$10 trillion in budget deficits over the next 10 years



Source: Congressional Budget Office (CBO).



National debt will reach 90% of GDP in the next decade



Source: Congressional Budget Office (CBO).

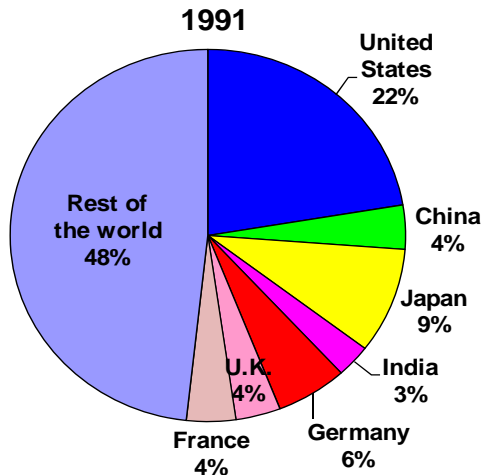
Change in the world economic power



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China and India are larger in the world economy

Real GDP (PPP dollars), share of world total



Sources: International Monetary Fund, The Milken Institute.



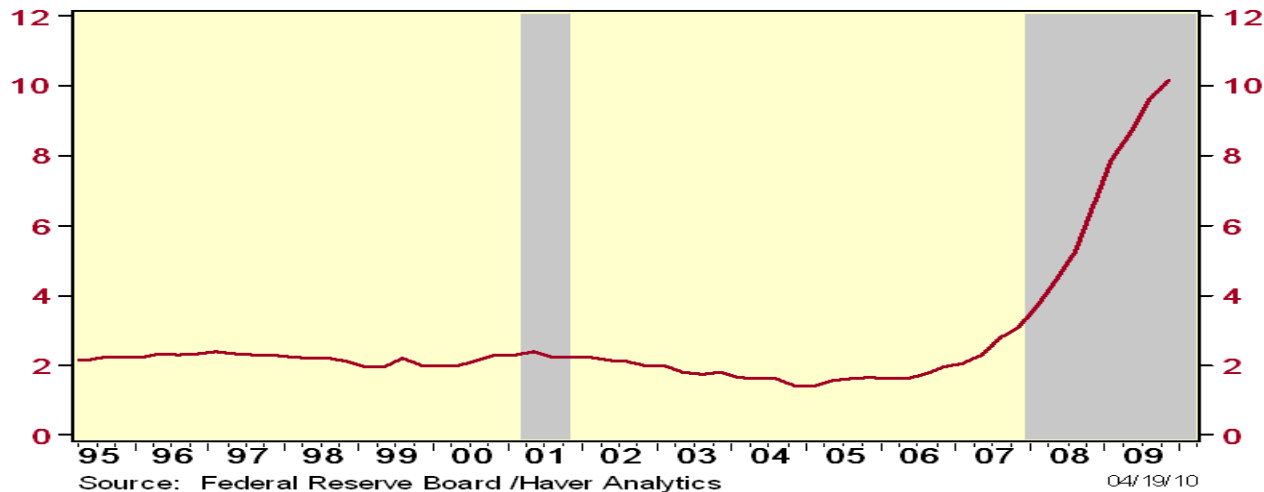
Kenneth Griffin's Slides



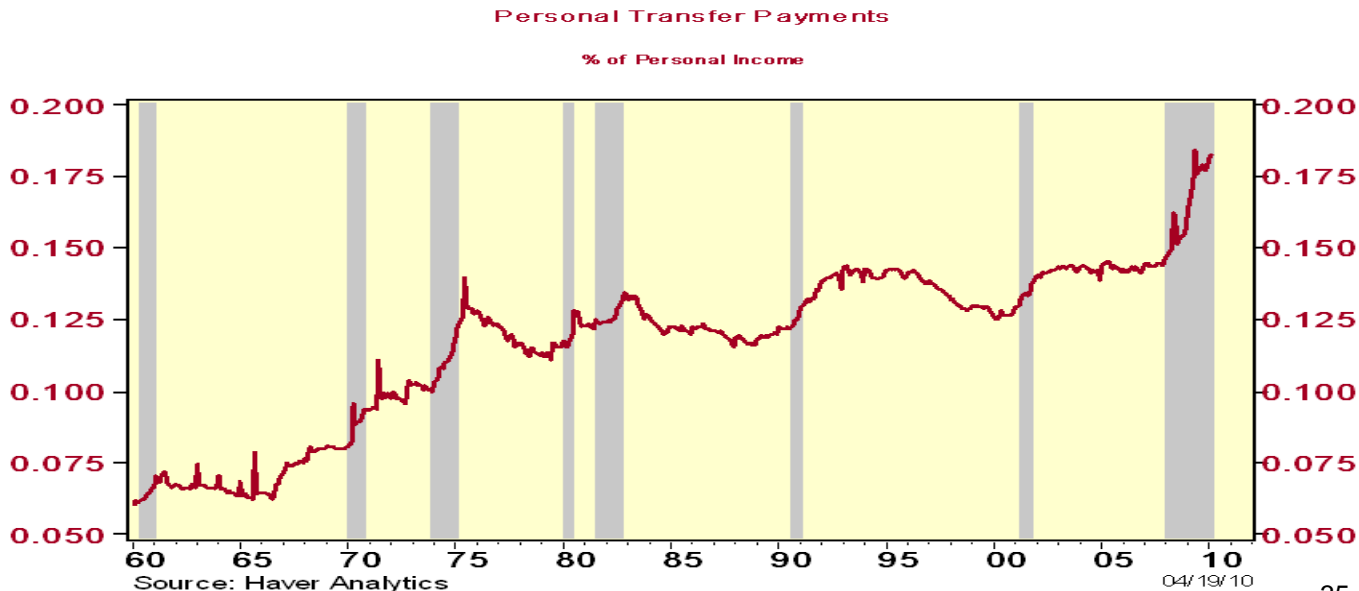
Residential real estate loan delinquency rate

Residential Real Estate Loan Delinquency Rate: All Comm'l Banks

SA,% (l)



Personal transfer payments



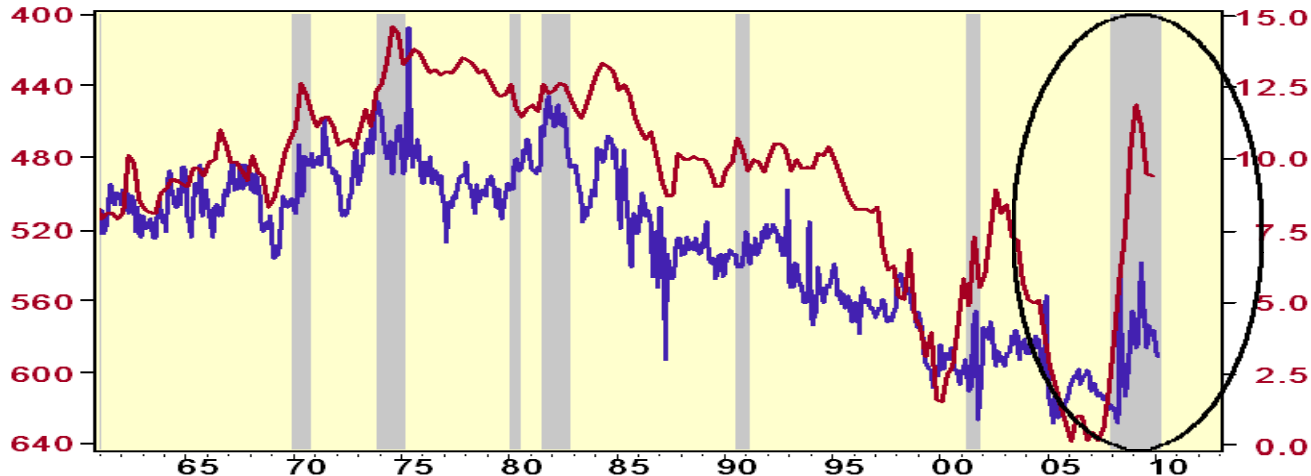
Household's net worth (as a % of disposable personal income)



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Households & Nonprofit Org: Net Worth as a % of Disposable Personal Income
% (LHS)

Personal Saving Rate %
RHS



Sources: FRB, BEA /Haver

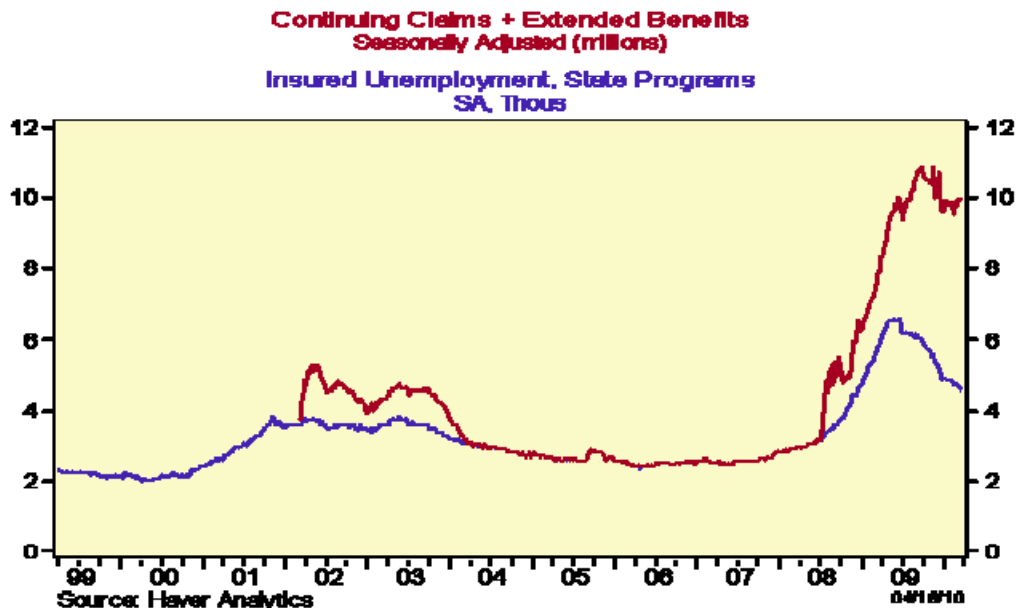
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Unemployment and underemployment



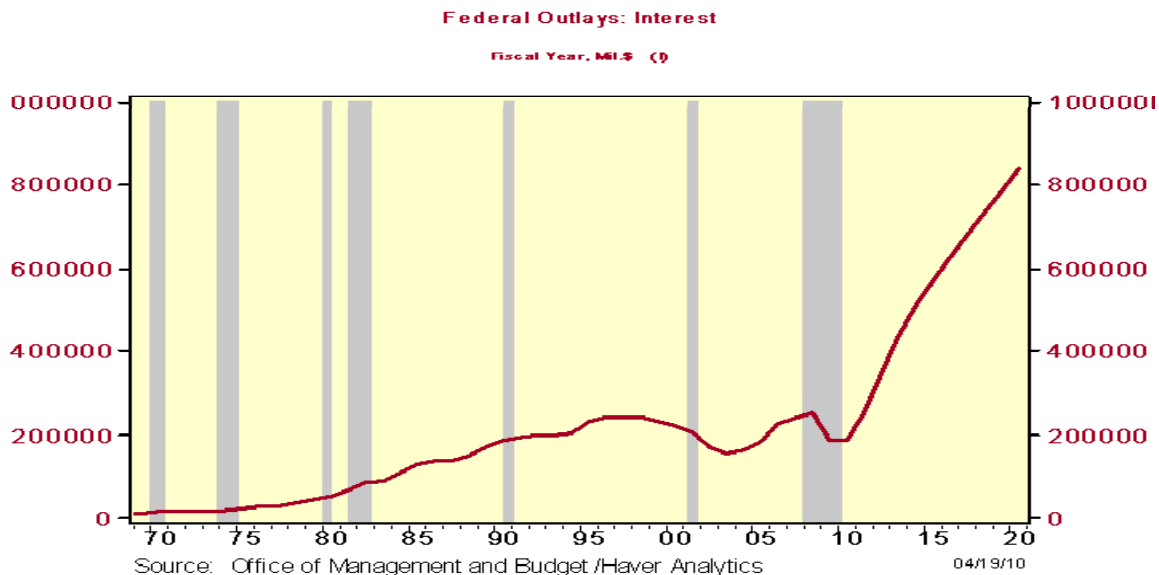


Continuing claims and insured unemployment

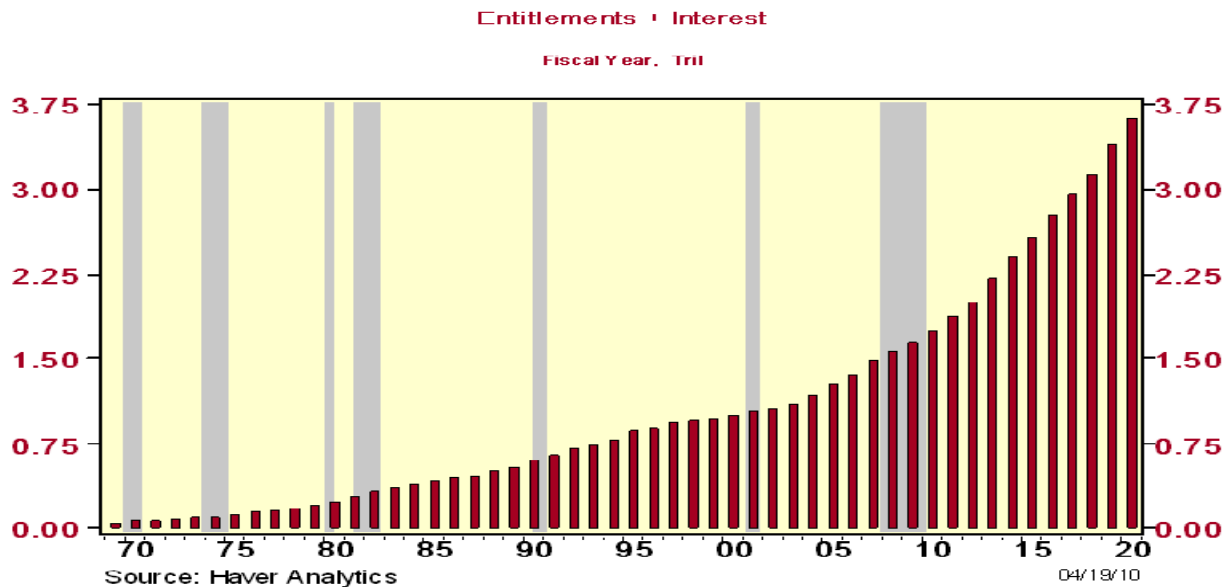




Federal outlays: interest

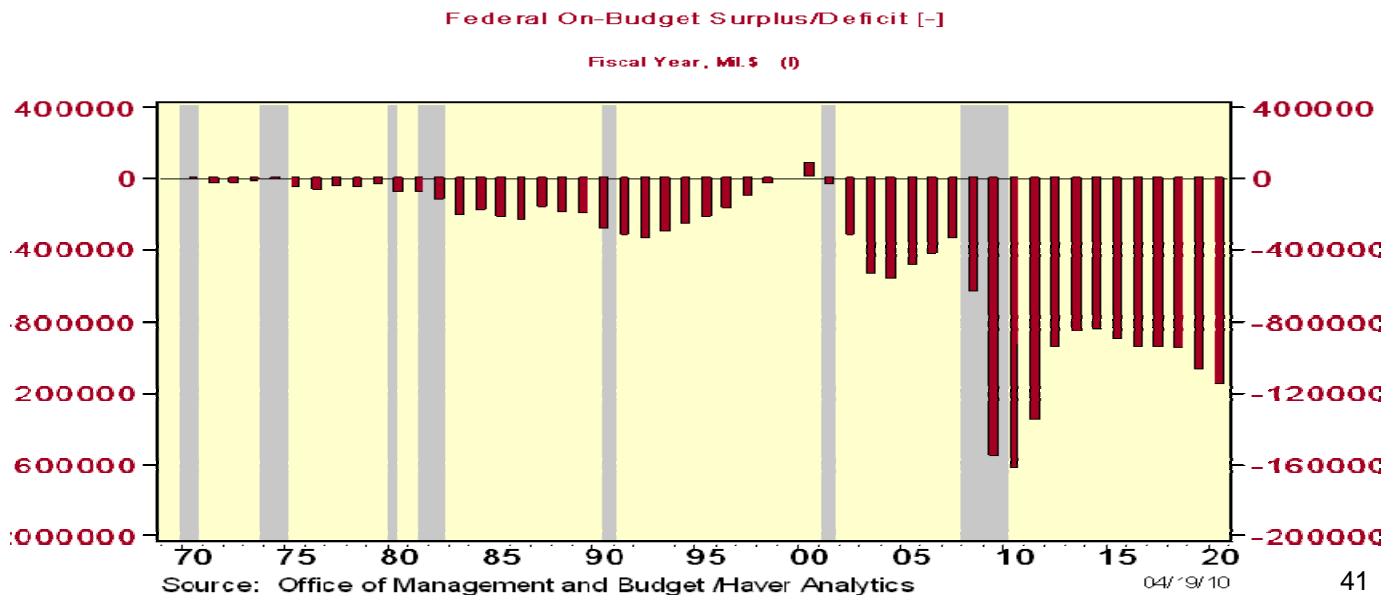


Entitlements and interest





Federal on-budget surplus/deficit [-]

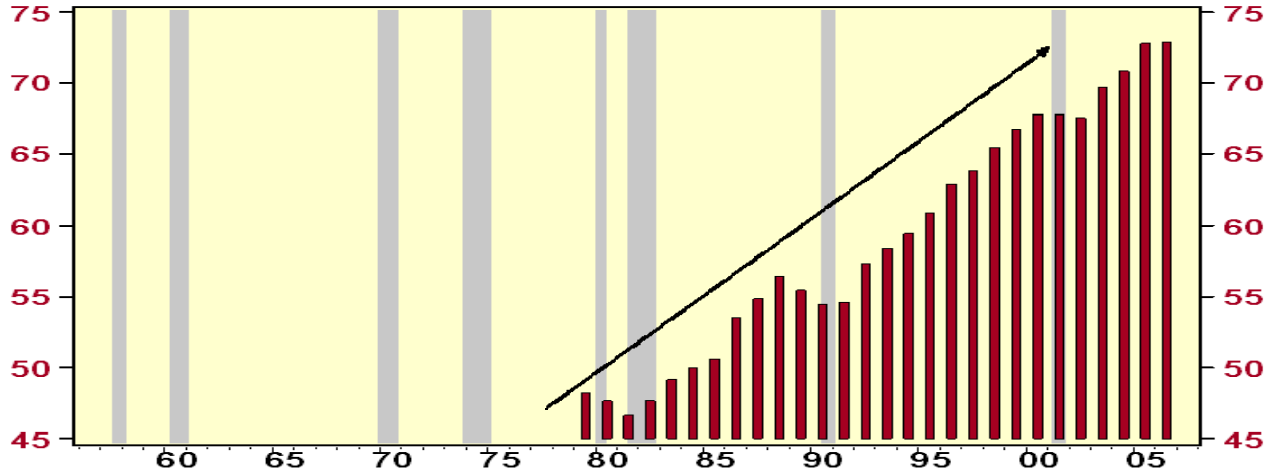


Share of individual income tax liabilities: top 10 percent



Share of Individual Income Tax Liabilities: Top 10 Percent

% (1)



Source: Congressional Budget Office /Haver Analytics

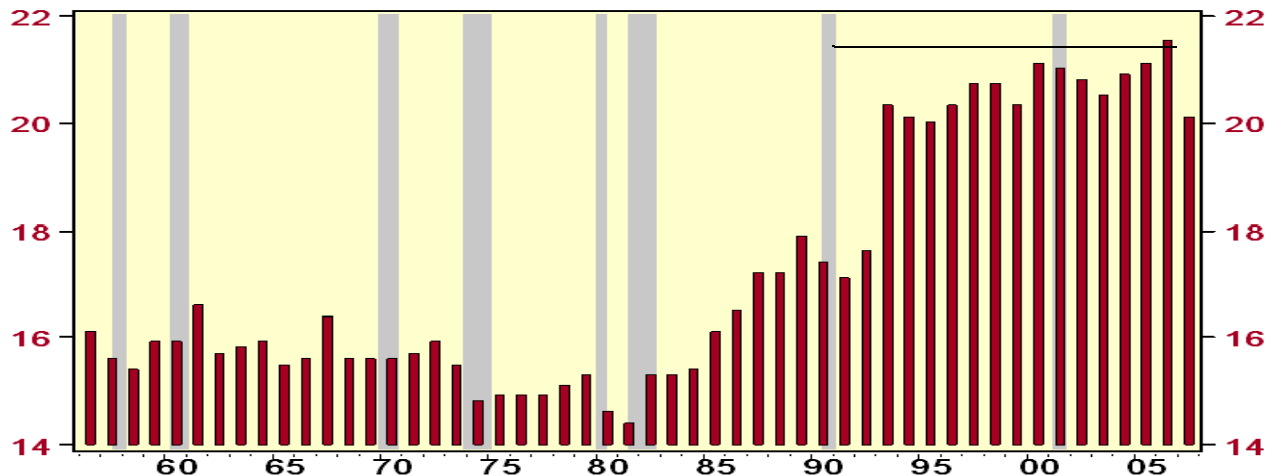
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Share of income: highest 5 percent of families

Share of Income: Highest 5 Percent of Families

% (I)

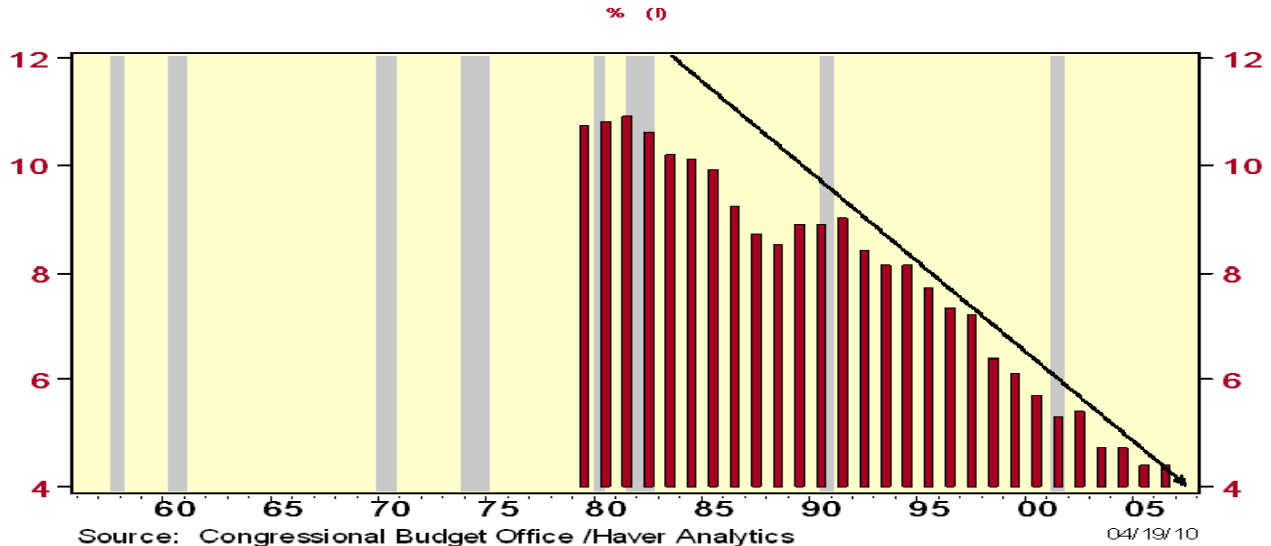


Source: Bureau of the Census /Haver Analytics

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Share of individual income tax liabilities: middle income quintile

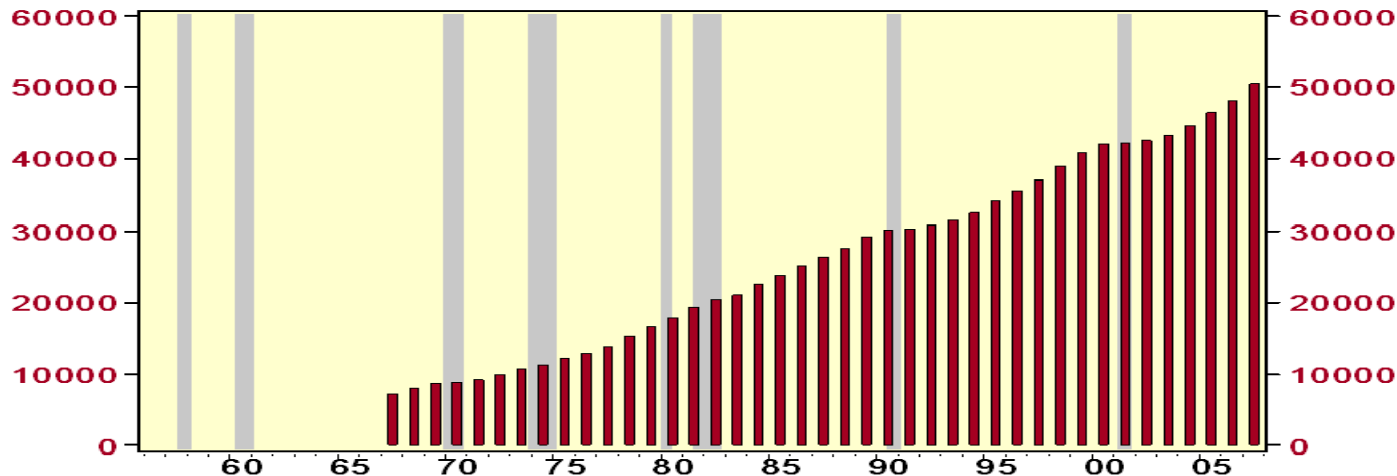
Share of Individual Income Tax Liabilities: Middle Income Quintile



Median income of households

Median Income of Households

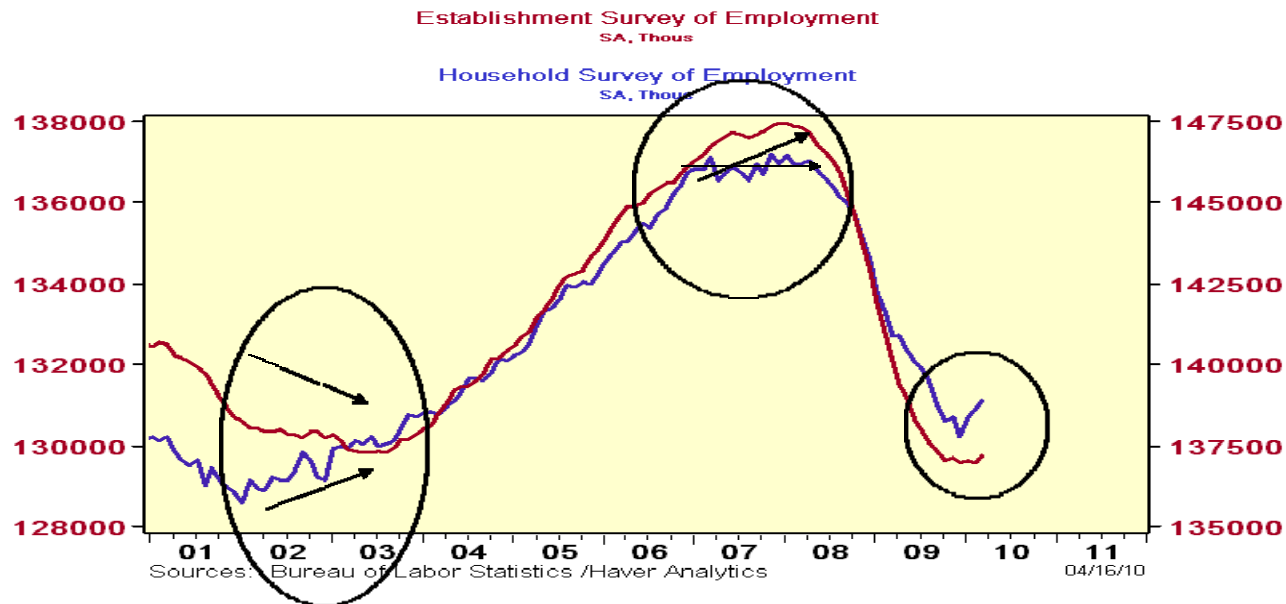
Current Dollars (I)



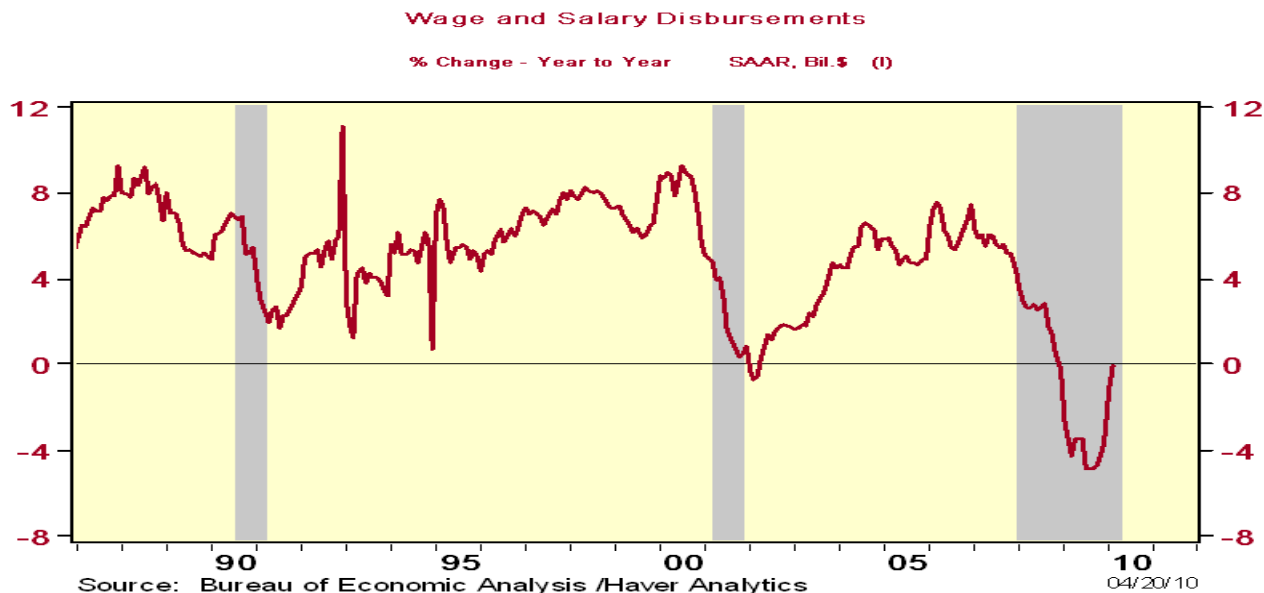
Source: Bureau of the Census /Haver Analytics

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Establishment survey of employment



Wage and salary disbursements

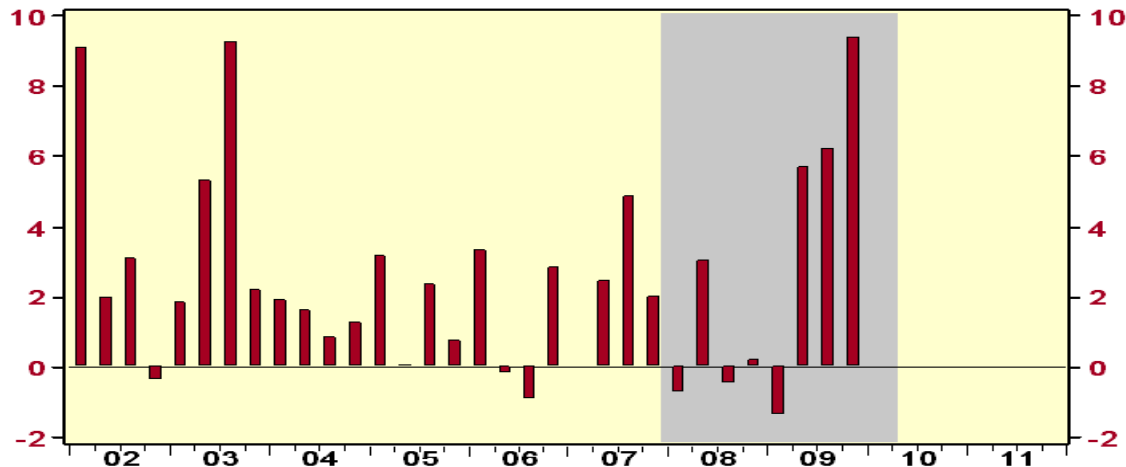


Nonfarm business productivity: Output per person



Nonfarm Business Productivity: Output Per Person, All Persons

% Change - Annual Rate SA, 1992=100 (1)



Source: Bureau of Labor Statistics /Haver Analytics

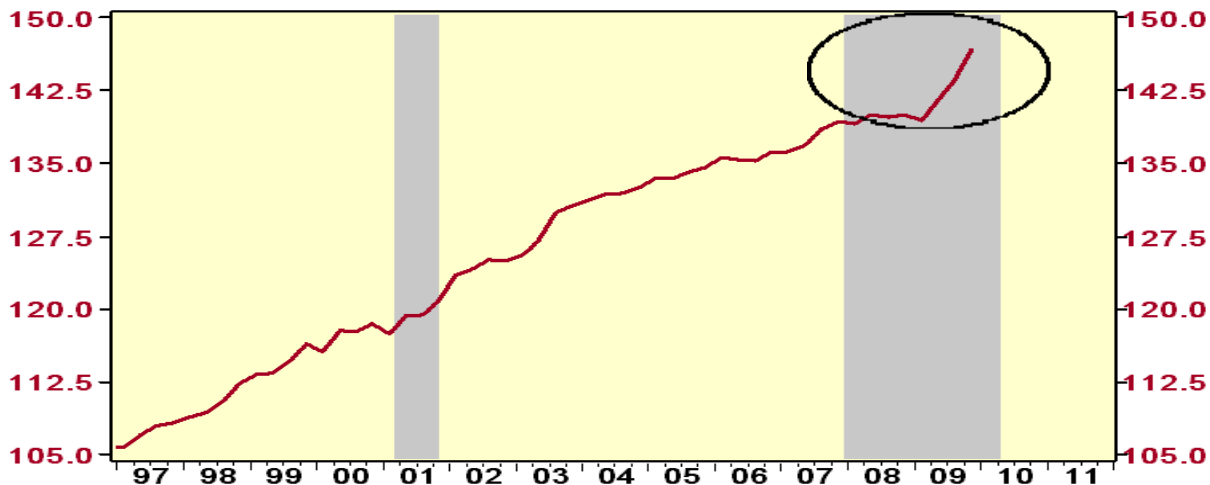
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Nonfarm business: output per person

Nonfarm Business: Output Per Person, All Persons

SA, 1992=100 (I)



Source: Bureau of Labor Statistics /Haver Analytics

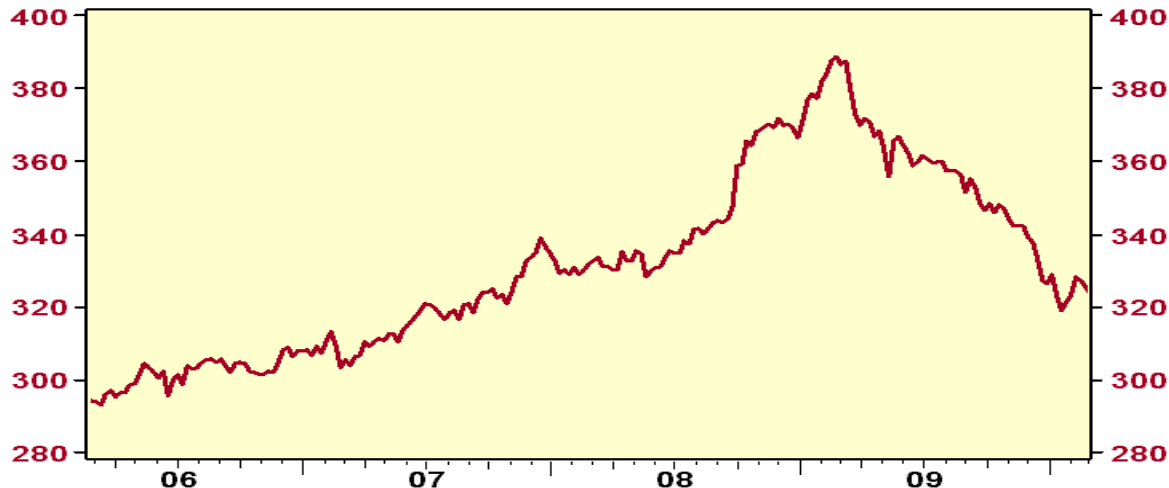
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Consumer loans: credit cards and other revolving plans



Consumer Loans: Credit Cards/Other Revolving Plans: All Comm Banks

SA, Bil.\$



Source: Federal Reserve Board /Haver Analytics

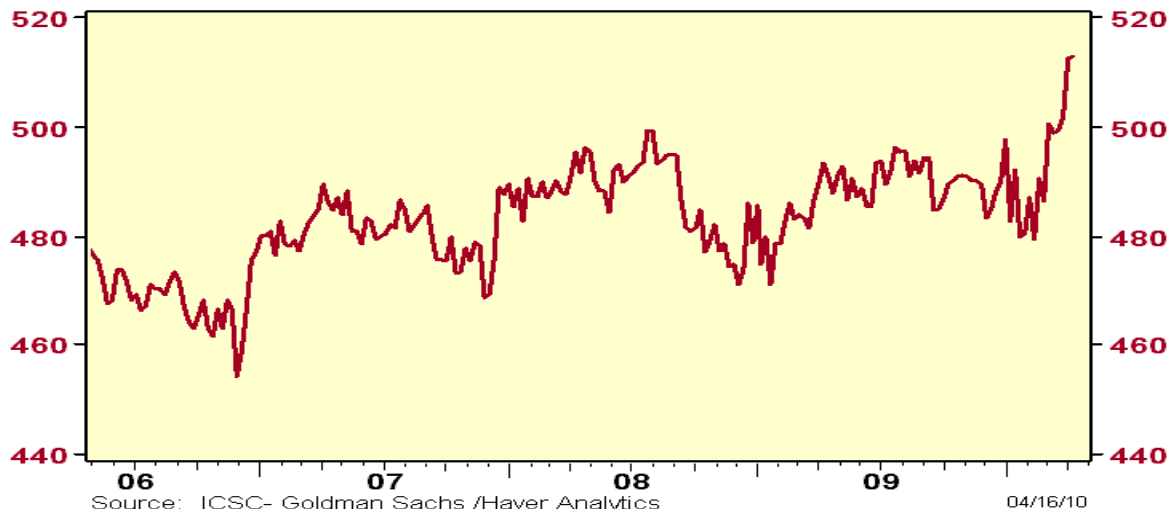
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ICSC-Goldman Sachs weekly retail chain store sales



ICSC-Goldman Sachs Weekly Retail Chain Store Sales

SA, 1977=100



Source: ICSC- Goldman Sachs /Haver Analytics

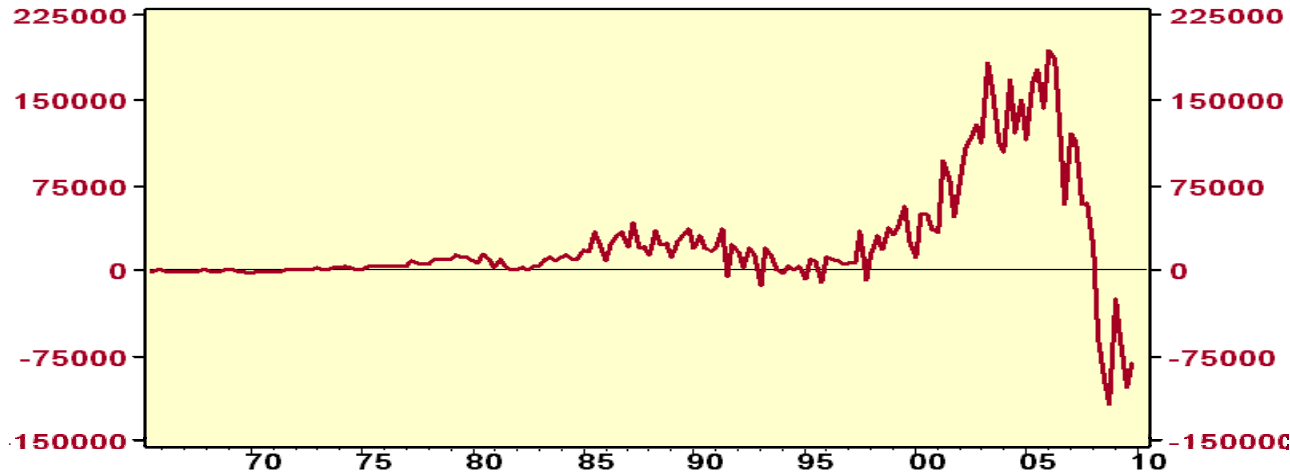
Home equity withdrawal: mortgages less residential construction



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Home Equity Withdrawal: Mortgages less Residential Construction

NSA, Mil.\$



Source: Haver Analytics

04/16/10



When will Americans' total net worth return to the peak it saw in the middle of 2007? Your choices are:

- A. By the end of 2010**
- B. First 2011**
- C. Second Half 2011**
- D. 2012**
- E. 2013 or Later**

In the 79 years from 1930 to 2008, how many years did the U.S. Government have a budget surplus?

- A. 2**
- B. 9**
- C. 13**
- D. 22**
- E. 36**